

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Create a
Consistent Regulatory Framework for the
Guidance, Planning and Evaluation of
Integrated Distributed Energy Resources.

Rulemaking 14-10-003
(Filed October 2, 2014)

**COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) AND
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
ON FINAL REPORT OF THE INTEGRATED DISTRIBUTED ENERGY RESOURCES
COST EFFECTIVENESS FRAMEWORK WORKING GROUP**

Thomas R. Brill
Attorney for:
SAN DIEGO GAS & ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS COMPANY
8330 Century Park Ct.
San Diego, CA 92123-1530
Telephone: (858) 654-1601
Facsimile: (619) 699-5027
E-mail: TBrill@semprautilities.com

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RESOURCES COST EFFECTIVENESS FRAMEWORK WORKING GROUP**

San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) (herein referred to as Joint Utilities) hereby submit the following comments on the final report of the Integrated Distributed Energy Resources Cost Effectiveness Framework Working Group (CEFWG) in response to the Administrative Law Judge’s Ruling Directing Comments to be Filed On The February 2, 2016 Status Report of The Integrated Distributed Energy Resources Working Group that was issued on February 29, 2016 (ALJ Ruling).¹ These Comments are limited to recommending a source basis for the natural gas price updates in the Avoided Cost Calculator and submitting recommendations as to the priority and manner in which issues should be addressed in Phase 3 of this proceeding.

I. RECOMMENDED SOURCE BASIS FOR UPDATING THE NATURAL GAS PRICE FORECAST IN THE AVOIDED COST CALCULATOR

As a follow-up to discussions during the May 31, 2016 workshop and the request of stakeholders to provide comments on E3’s proposed updates to the Avoided Cost Calculator, the

¹ At the direction of Commission Staff, the Joint Utilities also provided its comments on June 8, 2016 through the Commission’s CPUC Energy Evaluation Public Comment website at <http://www.energydataweb.com/cpuc/comment.aspx?did=1549>. It can be found under the following topic, “Draft Avoided Costs Calculator June 2016 Interim Update (ACC Update).”

Joint Utilities offer the following comments regarding the updates to the natural gas price forecast.

E3's proposal is to use forward market prices through 2021 for gas and through 2023 for electric avoided costs. The Joint Utilities, alternatively, recommend that the same year, specifically 2023, be used for both commodities. E3 provided no reason for adopting different years for the use of market forwards, and doing so may create some unanticipated inconsistencies, for example in calculating the heat rate. Taking the gas price forecast out two more years would still be substantially less than the number of years used in the 2011 Update, which used 12 years of gas forwards.²

The Joint Utilities also question the reasoning behind E3's proposal to utilize the Market Price Referent's (MPR) last method for forecasting natural gas prices. Accordingly, we recommend that the avoided cost calculator use the method for forecasting gas prices that was originally adopted in Rulemaking (R.)04-04-025. The Joint Utilities recommend that market forwards be used through 2023 and then transition to the long-term gas price forecast that uses an average of long-term fundamental forecasts. There is ample precedent for using a gas price methodology that transitions from market forwards to a long-term fundamental forecast, and that was the methodology used in the 2011 Update. E3's proposal to adopt the MPR's use of long-term fundamental forecasts as only an escalation tool in calculating avoided gas costs does not appear to be supported by a CPUC decision.

² E3 has constructed the natural gas commodity price forecast using NYMEX Henry Hub futures through 2022 updated in December 2010, plus average basis differentials for delivery from Henry Hub to the utility local transmission system (trading through 2015). After 2022, an average of three fundamental price forecasts is used.

A gas price methodology that transitions from market forwards to a long-term fundamental forecast was the original avoided cost formulation.³ CPUC Decision (D.) 06-06-063 described such a forecasting method and adopted the three gas price forecasts from the EIA, CEC, and SoCalGas as reported in the California Gas Report (CGR). These three fundamental forecasts are still publically available and could be used in place of the proprietary forecasts used later in the MPR that are no longer available. A gas price methodology that transitions from market forwards to a long-term fundamental forecast was also used originally for the MPR as well.⁴

³ The avoided commodity is calculated as the product of the forecasted market price and one plus the avoided compression gas and reduced loss and unaccounted for gas percentages. Similar to the avoided electricity calculation, the gas commodity is forecasted for three periods. Period 1 is the period when forward market prices for gas are available from NYMEX, Period 2 is a transition, and Period 3 is based on a long-run forecast of future prices. In addition to the gas avoided cost, the gas commodity costs are used in conjunction with the UDC gas transportation tariff for generation to estimate the long-run avoided electricity generation costs.

The Final Report presents updates to the electricity market prices and natural gas prices currently used in the E3 calculator to produce revised natural gas and electric generation avoided costs. Natural gas prices are updated using gas futures price data from NYMEX for the years 2006-2011. The long-run gas forecast for the years 2015-2030 is based on an average of Energy Information Agency, CEC and SoCalGas forecasts, which were also updated by E3 using the most recent forecasts available. The years 2012-2013 represent “transition” years based on a blend of NYMEX futures and the long-run gas forecast. These values were developed by extrapolating the 2011 NYMEX futures price to the 2015 long-run forecast. See, From D.06-06-063, at p. 55.

⁴ SDG&E and PG&E urge that we should adjust the relationship between the end of NYMEX data (no later than Year 6, and possibly Year 5, see D.04-06-015) and the beginning of reliance on the fundamentals forecasts in Year 7 to address the problems with the forecast in 2004. SDG&E suggests that, instead of using the escalation forecasting methodology of the 2004 MPR for Years 7-20, we should use a three-year straight line blending between the near term (Years 1-6) and the long-term (Years 7-20), and then use the average of the fundamental forecasts for the remaining years. This method retains the absolute value of the fundamentals-based gas price forecasts and eliminates the escalation process for Years 7-20 that we used in 2004, which was the subject of criticism from the parties. We agree that this method will eliminate, or greatly reduce, the problems with the forecast generated using the 2004 model, and we will adopt it. Our conclusions on the gas forecast issues are consistent with our guiding principles. Market participants use some mixture of market data (NYMEX prices) and fundamentals forecasts for estimating long-term gas prices in a variety of settings, not only new PPAs for electricity produced from CCGTs. See, D.05-12-042, at pp. 16-17.

D.05-12-042 adjusted the relationship between the end of NYMEX data (no later than Year 6, and possibly Year 5, see D.04-06-015) and the beginning of reliance on the fundamentals forecasts in Year 7

II. PRIORITIZATION OF PHASE 3 ISSUES

The Joint Utilities propose that Phase 3 issues in this proceeding should be submitted under the priority and in the manner set forth below.

Priority	Issue	Mechanism to Address Issue
4	1. Incorporate Uncertainty	Working Group
6	2. Align the cost-effectiveness framework with CA's Environmental goals. Some items in Issue 3b (e.g., ratepayer interests) are related to this issue	Working Group
	3. Developing common framework of costs and benefits	
2	3a. Existing Costs and Benefits	Working Group
Following individual relevant proceeding schedules	3b. Incorporating new costs and benefits	Other proceedings (LTPP-RPS, RA, DRP, etc.) are currently taking the lead in identifying other costs and benefits and consideration of incorporating market reliability impacts. Once approved in their respective proceedings, incorporation should follow the methodology developed in 6a
Following individual relevant proceeding schedules	3c. Including market reliability impacts	Other proceedings (LTPP-RPS, RA, DRP, etc.) are currently taking the lead in identifying other costs and benefits and consideration of incorporating market reliability impacts. Once approved in their respective proceedings, incorporation should follow the methodology developed in 6a
Following individual relevant proceeding	4. Align the avoided cost concept with needs of the Grid and CA's long term goals	A process that results in a highly robust record, such as a ruling soliciting answers to a set of questions, followed by

to address the problems with the forecast in 2004. In D.05-12-042, the Commission determined that, instead of using the escalation forecasting methodology of the 2004 MPR for Years 7-20, Staff should use a three-year straight line blending between the near-term (Years 1-6) and the long-term (Years 7-20), and then use the average of the fundamental forecasts for the remaining years. This method retains the absolute value of the fundamentals-based gas price forecasts and eliminates the escalation process for Years 7-20 that we used in 2004, which was the subject of criticism from the parties. See, Resolution E-3980, issued April 13, 2006.

Priority	Issue	Mechanism to Address Issue
schedules		workshops and comments.
3	5. Develop guidelines for use of each SPM test and better understanding of the usefulness of each SPM perspective	ED Staff proposal that will be informed through a Workshop with stakeholder presentations on various SPM test (e.g., purpose, strengths & weaknesses), followed with opportunity for workshop participants to comment.
	6. DER Integration	
1--Concurrent with Issue 7	6a. Integration across proceedings—focus on development of methodology/process for incorporating adopted inputs from various proceedings associated with Issues 3b, 3c and 4 above.	Working Group
5	6b. Integration of bundled DERs (e.g., EE and Demand Response project)	Recommend ED conduct a survey of existing IDSM CE work and other relevant existing work followed by workshop and comments.
1--Concurrent with Issue 6a	7. Additional/Follow-up on existing Avoided Cost calculator issues (e.g., load shapes and energy price, RPS curtailment impacts)	Working Group, informed by work going on simultaneously in the RPS proceeding on the Renewable Integration Cost Adder.

III. CONCLUSION

The Joint Utilities appreciate the opportunity to submit the forgoing comments herein.

Dated: June 21, 2016

San Diego Gas & Electric Company

/s/ Thomas R. Brill

By: Thomas R. Brill

Attorney for: SAN DIEGO GAS &
ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS
COMPANY

8330 Century Park Ct.

San Diego, CA 92123-1530

Telephone: (858) 654-1601

Facsimile: (619) 699-5027

E-mail: TBrill@semprautilities.com